

# STATE

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## EMPLOYEES RETIREMENT SYSTEM



# NEBRASKA STATE EMPLOYEES' RETIREMENT SYSTEM

Nebraska Revised Statutes  
 §§84-1301 through 84-1333

The State Employees' Retirement Plan (the Plan) is designed to provide retirement benefits in recognition of your service to the State of Nebraska and is administered by the Public Employees' Retirement Board (PERB). The Plan is qualified under Internal Revenue Code §§**401(a)** and **414(h)** and is comprised of a **Defined Contribution** benefit and a **Cash Balance** (Defined Benefit) benefit. The contribution rate for members and employers is defined in state statute. The plan year is January 1 through December 31.

Effective January 1, 2003, members who begin contributing to the Plan participate in the **Cash Balance** benefit. (Prior Plan participants were eligible to choose to convert to Cash Balance or keep their Defined Contribution benefit.)

This booklet provides an *overview* of the benefits available to members of the Plan and is not intended to be a substitute for retirement education. The provisions of the "State Employees' Retirement Act" in all cases supersede the information in this booklet.

If you have questions, write to:

**Nebraska Public Employees' Retirement Systems (NPERS)**  
**P.O. Box 94816**  
**Lincoln, Nebraska 68509-4816**  
**Fax: 402-471-9493**

or call **402-471-2053** or toll-free **800-245-5712**. You may schedule an appointment to visit NPERS at **1221 N Street, Suite 325**, in downtown Lincoln.

For Plan information and to use the **Benefit Estimator**, visit the web site at: **[www.npers.ne.gov](http://www.npers.ne.gov)**.

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## CASH BALANCE OR DEFINED CONTRIBUTION

The State Employees' Retirement Plan began as a Defined Contribution Plan in 1964. The **Cash Balance** benefit was added by passage of LB 687 on April 18, 2002. As of January 1, 2003, members who begin participation in the State Employees' Retirement Plan (the Plan) participate in the Cash Balance benefit. Active plan participants at the time were given the option of *keeping* their **Defined Contribution** benefit or *converting* to the Cash Balance benefit.

This booklet outlines all aspects of the Plan. Most aspects apply to **both** Cash Balance and Defined Contribution. Areas where Cash Balance differs from Defined Contribution are clearly described and are located in these sections:

- ◆ Investment of Contributions
- ◆ Payment Options at Termination/Retirement
- ◆ Death Benefits
- ◆ Reemployment

## MEMBERSHIP

**Mandatory Membership** - Participation is **mandatory** for all permanent employees who work one-half or more of the regularly scheduled hours during each pay period and have completed 12 *continuous* months of service.

Continuous service with the state is not interrupted by temporary suspension that does not terminate your employment or by unpaid leaves of absence authorized by the state for less than 12 months and due to medical, educational or military purposes.

**Voluntary Membership** - Participation is **voluntary** for permanent full-time or permanent part-time employees, age 20 or older, that have completed *a total of* 12 months of service within a five-year period. This service need not be continuous.

**Exceptions** - The following state employees participate in separate retirement plans and ARE NOT eligible to join the State Plan:

- ◆ State judges
- ◆ State patrol officers
- ◆ Department of Education employees participating in the School Employees' Retirement Plan

- ◆ Employees of the University of Nebraska, state colleges, and community colleges
- ◆ Army and Air National Guard technicians
- ◆ Department of Labor (Division of Employment) employees hired prior to July 1, 1984
- ◆ Employees of the State Board of Agriculture (Fair Board) employed after July 1, 1982.

If you have been **appointed** by the Governor, you may elect not to become a member of the State Plan.

Service as a **temporary** state employee is not considered service for purposes of plan eligibility.

*Once you elect membership, you are subject to all provisions of the Plan and cannot withdraw or cancel participation until you cease employment.*

**Vesting Credit** - If you were a full-time employee and participated in another Nebraska governmental plan, that participation may count toward the 12 months of eligibility and 3 years of vesting. To qualify, you must complete an Eligibility and Vesting Credit Application and submit to NPERS **within 30 days** of your date of hire. Your personnel contact is to provide this form to all employees *upon hire*. If you have prior participation in another governmental plan, it is your responsibility to provide NPERS with the completed application. (See "Vesting/Vesting Credit.")

## ENROLLMENT

When you have met **mandatory** eligibility requirements for the Plan, your personnel contact or payroll clerk will enroll you and begin withholding contributions from your compensation (wages).

**Voluntary** enrollment is at your discretion. An employee who does not meet mandatory participation but wishes to enroll may do so by completing a Cash Balance Voluntary Enrollment Form, available from your employer or NPERS. Your employer should submit the completed form to NPERS.

## Transfers Between Agencies

If you cease employment with an agency covered by the Plan and begin work again with that agency or another covered agency *within 120 days* of termination, your membership with the Plan will not be interrupted. Your former agency personnel contact should notify the new agency of your participation in the Plan, if they are aware you are transferring. (See “Reemployment” if you have had a break in state service.)

## BENEFICIARY DESIGNATION

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Your beneficiary is the person or persons you designate to receive your account balance upon your death. At the time you enroll in the Plan, your employer will provide you with a Beneficiary Designation Form.

Keeping your beneficiary designation at NPERS up to date will ensure benefits are paid promptly and properly upon your death. You should review and update your beneficiary designation if:

- ◆ you or a beneficiary marries or becomes divorced;
- ◆ a beneficiary dies;
- ◆ you have a child;
- ◆ you return to employment after receiving a distribution of your account. (See “Reemployment.”)

You may request a Beneficiary Designation Form from your employer or from NPERS, or download the form from the website at [www.npers.ne.gov](http://www.npers.ne.gov). When NPERS receives your properly completed form, it will cancel any previous beneficiary designation. If you have not designated a beneficiary or your beneficiary predeceases you, your benefits will be paid to your estate.

## CONTRIBUTIONS

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As a member of the Plan, you contribute **4.33%** of compensation each payroll period *until you reach \$864* in contributions (\$19,954 in salary) during the plan year. Contributions on salary *in excess* of \$19,954 during the year are at the rate of **4.8%**.

The state matches your contributions each payroll period at the rate of **156%**. To be eligible to receive the employer matching contributions at termination or retirement, you must be vested. (See “Vesting/Vesting Credit.”)

If you are on a leave of absence and are receiving sick or vacation pay, you must continue to make contributions to the Plan. Upon termination, any pay for unused sick and vacation leave is also subject to retirement deductions and matched by the employer.

The law does not allow you to contribute more than the amount specified in the State Plan. However, the **Deferred Compensation Plan** is available for you to *voluntarily* defer an elected amount from compensation, thereby reducing your current federal and state income taxes. For more information, ask your employer for a Deferred Compensation Plan booklet, contact NPERS or download the booklet from the website at [www.npers.ne.gov](http://www.npers.ne.gov).

## VESTING/VESTING CREDIT

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Vesting allows you to retain the employer matching contributions when you terminate employment. Vesting occurs after three years, which includes the first 12 months of employment and two years of participation in the Plan. In addition, you can become vested in less than three years if you:

- ◆ attain age 55 before terminating employment,
- ◆ die before terminating employment, or
- ◆ qualify for disability benefits.

If you have participated in another Nebraska governmental plan, that participation may count toward the three years required to vest in the Plan. To qualify, you must complete an Eligibility and Vesting Credit Application and submit to NPERS **within 30 days** of your date of hire, as discussed previously.

When a nonvested plan member ceases employment, his/her employer contributions are forfeited. The forfeiture funds are used to pay the Plan's pro-rata share of NPERS' administrative expenses.

## INVESTMENT OF CONTRIBUTIONS

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Your responsibility for investment of contributions differs significantly for the **Cash Balance** benefit and the **Defined Contribution** benefit, as described in the following sections.

### Cash Balance Benefit

Members who participate in the **Cash Balance benefit do not make investment choices**, for either member or employer contributions. Cash Balance participants are guaranteed an interest credit each day based on the “interest credit rate,” as explained below. The interest credit is determined by applying the daily portion of the interest credit rate to the account balance at the end of the previous day.

#### Cash Balance Interest Credit Rate

The interest credit rate is defined in statute as the greater of 5%, or the applicable federal mid-term rate plus 1.5%. Therefore, if the federal mid-term rate falls below 3.5%, you are guaranteed to receive a 5% return on your account. The interest credit rate is to be determined each calendar quarter (January, April, July and October) based on the federal mid-term rate that is published by the Internal Revenue Service as of the first day of that quarter. The rate is to be compounded annually.

The federal mid-term rate is based on the average market yield (during the calendar month of the determination) on outstanding marketable obligations of the United States with maturities of at least three years but no more than nine years.

#### Cash Balance Trust Fund

All member and employer contributions are held in a trust fund. This trust fund is invested by professional fund managers under the direction of the Nebraska Investment Council. Trust fund dollars cannot be used for any purpose other than providing retirement benefits to members or covering plan expenses. When investment performance results are above the interest credit rate, the Public Employees Retirement Board (PERB) has the option to issue a dividend to active plan members, or the Nebraska Legislature may pass legislation to improve plan benefits for active members. In the event of unfavorable investment performance,

any additional funds required to provide the guaranteed benefits are to be appropriated from the state general fund.

### Defined Contribution Benefit

Members who have elected to keep their **Defined Contribution benefit make their own investment decisions** for both member and employer contributions. Rates of return vary based on investment choices and market performance.

#### Defined Contribution Investment Funds

The PERB selects the investment funds that are available to Defined Contribution participants, and the Nebraska Investment Council selects the money managers for each fund. You currently have the following choices of investment funds for your **member contributions** and may choose one or more combinations:

- ◆ Money Market Fund
- ◆ Stable Fund
- ◆ Bond Market Index Fund
- ◆ Conservative Pre-Mix Fund
- ◆ Moderate Pre-Mix Fund
- ◆ Aggressive Pre-Mix Fund
- ◆ S&P 500 Stock Index Fund
- ◆ Large Company Growth Stock Index Fund
- ◆ Large Company Value Stock Index Fund
- ◆ Small Company Stock Fund
- ◆ International Stock Fund

You may invest the **employer matching contributions** in one or a combination of the following:

- ◆ Employer Conservative Fund
- ◆ Employer Moderate Fund
- ◆ Employer Aggressive Fund

Your investment designations must be in 5% increments. If you did not make an investment election at the time of your enrollment, your employee contributions were invested in the Stable Fund and employer matching contributions were invested in the Employer Moderate Fund.



Please refer to the Annual Investment Report for complete investment details. NPERS will inform you if any changes are made to the investment funds.

### **Defined Contribution Investment Changes** *(Future Contributions)*

You may *change* the percent of **future** contributions you have allocated to each fund at any time. This change will not affect the existing contributions (current balance) already invested in the various funds.

### **Defined Contribution Investment Transfers** *(Existing Contributions)*

You may *transfer* (move) a dollar amount or percentage of your **existing** balances between any of the various funds at any time, except for restrictions on the Stable Fund. A direct transfer between the Stable Fund and a “competing fund,” specifically the Money Market Fund, the Conservative Pre-mix Fund, or the Bond Market Index Fund is not allowed. Transfers between such “competing funds” via another fund are restricted for three months.

When transferring out of a fund, you cannot transfer into that fund on the same day.

### **Defined Contribution Methods for Investment Changes and Investment Transfers**

Listed below are ways you may change your investment allocations or transfer your balance among funds. There is *no fee* assessed for these changes or transfers and you will receive confirmation of the activities from Ameritas, NPERS’ recordkeeper. You may also use the following telephone numbers or web site to request a statement of account.

- ◆ Access the automated voice response system at **800-449-2696** or **402-467-6925**;
- ◆ Enter changes through Ameritas’ Pension Access On-Line via NPERS’ web site at [www.npers.ne.gov](http://www.npers.ne.gov); or
- ◆ Complete an Investment Election Form, available from your employer or NPERS, or downloaded from NPERS’ web site, and submit to NPERS by mail or fax to **402-471-9493**.

To use the voice response system or NPERS’ web site, you must enter:

- ◆ Your Social Security number
- ◆ State Retirement Plan number (**002002**)
- ◆ Your Personal Identification Number (PIN). If you do not know your PIN or did not assign one when you enrolled in the Plan, you must complete a PIN Request Form, available from your employer or NPERS’ web site, and submit to NPERS.

## **STATEMENT OF ACCOUNT**

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Account statements will be mailed to you each calendar quarter. These statements give a detailed summary of the amount of contributions posted to your account each quarter, your investment earnings or losses, record keeping fees and adjustments, and the amount accumulated to date.

Statements are sent to your home address. **To ensure you receive your statements, always inform your employer of address changes.**

You may request a statement of account at any time by writing NPERS, accessing the telephone voice response system at **800-449-2696** or in Lincoln at **467-6925**, or the Ameritas Pension Access Line via NPERS’ web site at [www.npers.ne.gov](http://www.npers.ne.gov). You must know your Personal Identification Number (PIN) to request a statement of account via the voice response system or the web site.

All Plan assets are held *in trust*. Your accumulated account is immune from execution, garnishment, attachment, bankruptcy or insolvency laws or any other process of law. The assets cannot be paid out because of any legal actions. You cannot use your Plan assets as loan collateral since they are not assignable. There are only two means by which your Plan assets can be paid to anyone other than yourself or your beneficiaries:

- ◆ through a qualified domestic relations order under the Spousal Pension Rights Act
- ◆ through an IRS tax lien

## ADDRESS CHANGES

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Your address is reported to NPERS by your employer. Therefore, it is important you keep your address current with your employer.

If you terminate employment and do not withdraw your funds, you should report any address changes directly to NPERS to ensure you receive your quarterly statements and other items mailed to you.

## FEES

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Your three separate costs in the Plan are the following:

- ◆ recordkeeping fee
- ◆ NPERS' administrative fee
- ◆ investment management fee

### Recordkeeping Fee

The fee for recordkeeping services, currently provided by Ameritas Life Insurance Company, is subtracted directly from your account. This fee is assessed on a monthly basis and is reflected on your quarterly account statement.

### Administrative Fee

The cost of NPERS' operations is reimbursed from the forfeitures in the State Plan. Forfeitures occur when a nonvested plan member ceases employment, which causes the employer contributions to be forfeited. These amounts are used to pay the Plan's pro-rata share of NPERS' administrative expenses.

NPERS also assesses a nominal charge in the form of basis points against plan assets. A basis point is one one-hundredth of a percent. The basis points are accrued against the share price of each investment fund. For example, if the share price for a particular investment fund is \$1.00, the share price would be reduced to 99.9 cents if NPERS assesses an expense charge of 10 basis points (.0010). In this example, if a member has \$10,000 in his/her account, a charge of 10 basis points in expenses would cost approximately \$10 per year. These fees are not

reflected in the adjustment column of your quarterly statement, but reduce the earnings of each investment fund.

### Investment Management Fee

The investment management expenses include the operation costs of the Nebraska Investment Council, the custodial bank fee to handle the plan accounting, and the management fee charged by each fund manager. These fees are not subtracted on your quarterly statement but reduce the earnings of each investment fund.

Because of economies of scale and the state's negotiating power, the investment fees on your funds are extremely low. The fees range from less than 5 basis points (.0005) on some index funds to 76 basis points (.0076) on the more actively managed choices like the International Stock Fund. In comparable mutual funds outside of the Plan, fees are often very costly and sales charges might also apply.

## TERMINATION OF EMPLOYMENT

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If you cease working for the state *before* age 55, you are considered to have "terminated" for plan purposes.

To qualify for the employer matching funds when ceasing employment, you must be "vested." (See "Vesting/Vesting Credit.") If you are not vested at the time you cease employment with the state, you are NOT eligible for the employer matching contributions. Both non-vested and vested members have the same options upon ceasing employment. (See "Payment Options At Termination/Retirement.")

If you cease working for the state *on or after* the age of 55, you are considered "retired" for plan purposes. At age 55 you are automatically "vested," which means you are eligible for the employer matching contributions, regardless of how long you have been a member of the Plan.

Your agency personnel contact is required to notify NPERS of the date you cease employment with the state. Upon receipt of the information, NPERS will send a distribution packet which includes a Request for Distribution Form and a Special Tax Notice.



If you request payment instead of deferring your account, you will receive payment as soon as administratively practicable but no sooner than 60 days after your termination date, *provided* all contributions have ceased and all transactions affecting your account have been completed. If you receive pay for unused leave, contributions must be deducted on this amount. This may delay your payment if your leave pay is delayed by your agency.

**Warning:** If you return to work for the state in any capacity before **120 days** have elapsed from your termination date, you are not entitled to receive any funds, and any funds distributed must be repaid.

To assist in selecting your payment option, you may want to contact NPERS in writing, by telephone or in person in advance of your termination/retirement date to obtain an estimate of benefits under the various annuity options. To provide estimates, you will be asked for your anticipated termination date and the date of birth of your spouse or beneficiary.

You should also review your beneficiary designation if you plan to defer all or part of your account, or if you select the Period Certain or Designated Period annuities or the Systematic Withdrawal payment option.

## **PAYMENT OPTIONS AT TERMINATION/RETIREMENT**

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### **Distribution of Account**

The form required to elect a distribution of your account will be provided when NPERS receives notice of your termination from your employer.

Regardless of the payment option you select, your payment will be processed as soon as administratively possible, but no sooner than 60 days after your termination to allow time for processing all contributions from final pay. Annuity payments will be retroactive to your annuity start date.

**You should consider and discuss the following with your family before choosing a retirement payment option:**

- ◆ Your health and family health history

- ◆ Other financial income in addition to your retirement benefit
- ◆ Your beneficiaries who might depend on a benefit if you die
- ◆ The health of your beneficiaries
- ◆ The age difference between you and your beneficiaries

***Available to both Cash Balance and Defined Contribution participants*** at termination/retirement are the payment options listed below and explained on the following pages.

- ◆ **Withdrawal** paid *either directly* to you (included in your taxable income) or *rolled over* to another tax deferred qualified plan or IRA.
- ◆ **Deferral** of payments until a later date (no later than age 70½).
- ◆ **Monthly annuity** (proof of age is required) with choice of a cost-of-living provision.
- ◆ **Combination** of any of the above (restrictions apply for **Cash Balance** participants\*).

***\*Available to Cash Balance participants only*** at termination/retirement is the following:

- ◆ **Partial withdrawal with remainder as an annuity.** A Cash Balance participant may make a one-time election to withdraw part of the account, paid in a one-time payment directly to the member and/or rolled over. The remainder of the account *must be paid as an annuity*; however, the start of the annuity payments may be deferred to the first of the month following receipt of your annuity application.

***Available to Defined Contribution participants only*** at termination/retirement is the payment option listed below and explained on the following pages.

- ◆ **Systematic withdrawals** which provide a series of payments to you at the frequency and dollar amount you elect. This option may be used in combination with the Withdrawal, Deferral or Annuity Options.

## Withdrawal Option

### Paid Directly to You

All or part of your account may be paid directly to you and all pre-tax amounts will be reported as taxable income. The withdrawal will be subject to 20% federal tax withholding. A required minimum distribution must be paid to you by April 1 of the year following the year in which you turn age 70½.

**CAUTION:** If you ceased work before age 55 and are considering taking a withdrawal of your member account, please see “Taxation” before you make your decision. There is a possibility of an additional 10% tax penalty for early withdrawals of retirement funds. This will be assessed at the time you file your tax return.

### Rollover Option

All or part of your account may be rolled over or transferred to another eligible retirement plan or IRA. Amounts are not taxable when an account is rolled over since your money is merely being transferred from one eligible account to another. You will be taxed when you eventually withdraw the money from the other plan or IRA.

Contributions prior to 1985 have already been taxed and will be returned to you tax-free. These after-tax contributions can be rolled over if your rollover company will accept them and you make the appropriate election on your distribution form.

## Deferral Option

If you do not wish to take payment of your account at the time you terminate/retire, you may defer all or a part of your account. Payment of your account may begin at any time you choose but must begin by April 1 following the later of the year in which you reach age 70½ or the calendar year in which you retire.

While your account is deferred, it remains invested. You will continue to pay the same fees paid by active account participants. **Defined Contribution** members continue to have the same investment choices they had while employed and may transfer any remaining account balance among the investment options at their discretion.

**Under the Deferral Option, it is important you keep your address current with NPERS.**

## Monthly Annuity

You may use all or part of your account to purchase an annuity. Your monthly annuity payment will be determined by the dollar amount you annuitize, your age on the date your payments are to begin, the annuity option you select, and election of the cost-of-living adjustment. When you select an annuity, your investment funds are liquidated and you are paid a monthly payment.

NPERS self-annuitizes monthly benefits which results in higher annuity rates than are available through outside annuity providers. The rates are recommended by the Plan’s actuary. **Defined Contribution** participants receive a competitive annuity rate, however, **Cash Balance** participants, as an integral part of the benefit, receive a higher annuity rate.

The *effective date* of your annuity will be the later of: the first of the month following your last day of work, provided your application for benefits is received by NPERS in the month you terminate employment or the first day of the month following the date you file your application.

For example: If your last day of work is January 2, your effective date of retirement is February 1. If your last day of work is December 31 but NPERS did not receive your application until January 15, your effective date of retirement is February 1.

When you select an annuity option, your age must be verified before payments can begin. A legible copy of your birth certificate will be considered sufficient proof of your age. When a survivor option is selected, NPERS requires proof of age for your spouse or beneficiary.

You may request direct deposit of monthly annuity payments to your financial institution. The form will be included in your distribution packet.

You may request an annuity estimate by writing to NPERS, or calculate your own estimate by using the Benefit Estimator on the web site at [www.npers.ne.gov](http://www.npers.ne.gov).

### Cost-Of-Living (COLA) Provision

When selecting an annuity, you must decide if you wish to purchase an annual cost-of-living adjustment (COLA) to offset inflation. If you elect an annuity with no COLA, the annuity amount will never change over

your lifetime. If you purchase the COLA, the annuity dollar amount increases 2.5% each year.

### Annuity Options

The following annuity options are available to you at termination/retirement. **You CANNOT change your option after your annuity start date.** Therefore, NPERS suggests you request estimates of benefits under the options before you make your selection.

- Option 1 — Life Only Option** – Provides a monthly payment *for your lifetime* and no refund or death benefit. There is no beneficiary designation under this option. (*This option pays the highest monthly benefit.*)
- Option 2 — Modified Cash Refund** – Provides a monthly payment *for your lifetime*. If you die before receiving payments equal to your retirement account balance at retirement, the remaining amount will be paid in a lump sum to your beneficiary or estate.
- Option 3 — Period Certain and Continuous** – This option allows you three choices as to the length of a payment guarantee period for your beneficiary.
- a. **5-Year** – Provides a monthly payment *for your lifetime*, with a guarantee that if you die before receiving 60 payments, the balance of payments will be paid to your beneficiary in monthly payments.
  - b. **10-Year** – Provides a monthly payment *for your lifetime*, with a guarantee that if you die before receiving 120 payments, the balance of payments will be paid to your beneficiary in monthly payments.
  - c. **15-Year** – Provides a monthly payment *for your lifetime*, with a guarantee that if you die before receiving 180 payments, the balance of payments will be paid to your beneficiary in monthly payments.

**Option 4 — Joint and Survivor Annuity** – You have three choices when choosing this option. You must list only your spouse as beneficiary and should he/she predecease you, you cannot select another beneficiary.

- a. **50%** - Provides a monthly payment *for your lifetime*. When you die, your surviving spouse will receive 50% of your benefit, paid monthly for his/her lifetime.
- b. **75%** - Provides a monthly payment *for your lifetime*. When you die, your surviving spouse will receive 75% of your benefit, paid monthly for his/her lifetime.
- c. **100%** - Provides a monthly payment *for your lifetime*. When you die, your surviving spouse will receive 100% of your benefit, paid monthly for his/her lifetime.

**Option 5 — Non-Spousal Joint and Survivor Annuity** - Provides a monthly payment *for your lifetime*. When you die, your surviving beneficiary will receive 50% of your benefit, paid monthly for his/her lifetime. You must name one person as your beneficiary (this cannot be your spouse) and should he/she predecease you, you cannot select another beneficiary.

- Option 6 — Designated Period Annuity** - Provides a monthly annuity payment *for a designated period* of 5, 10, 15 or 20 years. Your beneficiary will receive the benefit payment(s) if you die prior to the end of the elected designated period.
- a. **5-Year** - Payment will cease at the end of the 5-year period. If you die before receiving 60 payments, the balance of payments will be paid to your beneficiary in monthly payments.
  - b. **10-Year** - Payment will cease at the end of the 10-year period. If you die before receiving 120 payments, the balance of payments will be paid to your beneficiary in monthly payments.

- c. **15-Year** - Payment will cease at the end of the 15-year period. If you die before receiving 180 payments, the balance of payments will be paid to your beneficiary in monthly payments.
- d. **20-Year** - Payment will cease at the end of the 20-year period. If you die before receiving 240 payments, the balance of payments will be paid to your beneficiary in monthly payments.

**NOTE:**

- Under **Options 2, 3 or 6**, you may list as many **beneficiaries** as you wish, and you may change these beneficiaries at any time after retirement.
- If you choose **Options 4**, NPERS must have legible proof of age for your spouse and a legible certified copy of your marriage license.
- If you choose **Option 5**, NPERS must have legible proof of age of your beneficiary.

### Systematic Withdrawal Option (*Defined Contribution participants only*)

The systematic withdrawal option (SWO) is available to **Defined Contribution** participants only and is **not available to Cash Balance participants**.

SWO is a series of withdrawals paid to you at the frequency and dollar amount you elect. The payment can be made on a monthly, quarterly, semiannual or annual basis and must be a minimum withdrawal of at least \$100. Withdrawals will be allocated pro rata among your investment funds. Changes in amount and frequency are limited to two per year.

While receiving SWO payments, your account remains invested. You continue to have investment choices and may transfer your remaining account balance among the investment funds at your discretion. You will continue to pay the same fees paid by active account participants.

The SWO payment will cease when the account is fully depleted. If you die, the SWO payment will cease upon notification of your death. If a balance remains, it will be paid to your designated beneficiary.

### Characteristics of SWO

- ◆ Minimum withdrawal — \$100.00
- ◆ Monthly, quarterly, semiannual or annual distributions
- ◆ Can be directly deposited into your bank account
- ◆ May make changes in amount and frequency of payments twice per year
- ◆ Federal taxes will be withheld at a 20% rate if withdrawals paid to you and not rolled over into an IRA or qualified plan
- ◆ May also be a 10% federal penalty if an early withdrawal prior to age 55 is paid to you directly
- ◆ You have investment direction on remaining account balance
- ◆ Payments cease if account is fully depleted
- ◆ Withdrawal amounts will be subject to required minimum rules upon attainment of age 70½

### MILITARY LEAVE

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If you are on Military Leave and return to active employment with the state, you are eligible to receive vesting credit for the period of military service, even if you do not make employee contributions for that period. To receive this vesting credit, you must submit your military honorable discharge documents within 90 days of returning to employment with the state.

If you wish to receive employer matching contributions for the period of military service, you must make your employee contributions for that time period through payroll deductions. To complete this process:

- ◆ Within 90 days of return to state employment, contact your employer for details on verifying your period of military service.
- ◆ Your employer should notify NPERS of the beginning and ending of the period of military service.
- ◆ Your employer will be required to complete a Make-up Contribution Agreement, which you must sign. Your payments will be based on your average compensation rate during the 12-month period immediately before your military service.

- ◆ You must complete your payments through payroll deductions in a period that is no greater than three times your military leave, but not to exceed five years.
- ◆ NPERS will contact your employer to ensure that matching contributions are remitted for your make-up contributions.
- ◆ There will be no interest or fees charged to you or your employer for the military service credit, as required by federal law.

## SPOUSAL PENSION RIGHTS ACT/QDRO

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In 1996 the Spousal Pension Rights Act codified the rights of divorced spouses and children to a share of a plan member's retirement account. To claim this share, proper language must be included in the divorce decree and be qualified by NPERS.

### Qualified Domestic Relations Order (QDRO)

A "qualified domestic relations order" (QDRO) is a court order that has been approved by NPERS and is therefore effective in dividing the member account. Divorce decrees and property settlements, although effective for most purposes, *do not* divide retirement account assets unless they include a QDRO. Once a judge has approved a QDRO, it must be sent to NPERS to be approved. Only when NPERS approves it does the order actually divide the benefits. If NPERS pays out benefits or a refund and later receives an order that would have affected the payment, NPERS is legally held harmless for making the earlier payments. Therefore, whenever a domestic order is signed, it should be sent to NPERS as quickly as possible.

The person who receives a share of a member's account through a QDRO is called the "alternate payee." Becoming an alternate payee gives the former spouse certain rights to the benefits, but does not mean immediate access to the money. There are two ways an alternate payee can gain access to the retirement account:

- ◆ if the member terminates employment or retires
- ◆ if the member is 50 years of age or older

If a member is under 50 and working, the alternate payee *cannot* gain access to the account.

When the alternate payee gains access to the account, the method of payment depends on what options the member is entitled to at the time the alternate payee *makes application*.

For further details refer to Neb. Rev. Stat. §§42-1101 through 42-1113, or call NPERS.

## DEATH BENEFITS

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Upon your death, your employer or beneficiaries should immediately notify NPERS. Any balance remaining in your account will be released according to your most recent Beneficiary Designation Form. Payment options available to your beneficiaries are as follows:

- ◆ **Surviving Spouse's Options** – If you die with a balance remaining in your account and have designated your spouse as your primary beneficiary, your spouse may elect *either* a withdrawal *or* an annuity, as follows:
  - **Withdrawal** – a one-time payment, paid out no later than the fifth anniversary of your death. Under federal tax law, your surviving spouse may take a direct payment or roll the money into another qualified retirement account or IRA.
  - **Systematic Withdrawal Option for Defined Contribution Only** – If you have a Defined Contribution account, your surviving spouse may elect a systematic withdrawal. (See "Systematic Withdrawal Option.")
  - **100% Joint and Survivor Annuity** – payment that will be paid monthly for your spouse's lifetime, based on your age and your spouse's age at your date of death.

**IMPORTANT:** To receive the annuity benefit, your spouse must file an application with NPERS **within 120 days** of your death. The effective date of the annuity will be the date of death.

- ◆ **Non-Spousal Beneficiary's Options** – If you die with a balance remaining in your account and your primary beneficiary is **not** your spouse, your account will be paid to your beneficiary in a one-time payment that must be distributed by the fifth anniversary of your death.



- ***Systematic Withdrawal Option for Defined Contribution Only*** – If you have a Defined Contribution account, your beneficiary may elect a systematic withdrawal that must be distributed by the fifth anniversary of your death. (See "Systematic Withdrawal Option.")

These rules apply:

- ◆ If you die without a designated beneficiary, payment will be made to your estate.
- ◆ Proof of death must be provided before any payments will be distributed.
- ◆ If you started annuity payments before your death, death benefits to your beneficiaries will be dependent on the annuity option you selected.

## **DISABILITY BENEFITS**

As a member of the State Plan, you may become eligible to receive benefits as a result of a disability, regardless of your age. Disability is defined as an *“inability to engage in a substantially gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration.”*

**To qualify, you must:**

- ◆ Be under age 55
- ◆ Cease employment for reasons of physical or mental impairment
- ◆ Apply for benefits with NPERS within *one year* of the date you ceased employment
- ◆ Provide a brief description of your illness, the name of your personal physician, and any other physicians or specialists you have seen regarding your illness
- ◆ Submit to a medical examination by a physician selected by NPERS and at the expense of the Plan

Your payment options are the same as regular termination/retirement payments under the Plan. (See “Payment Options at Termination/Retirement.”) If you qualify for disability benefits, you will automatically be vested in the employer contributions.

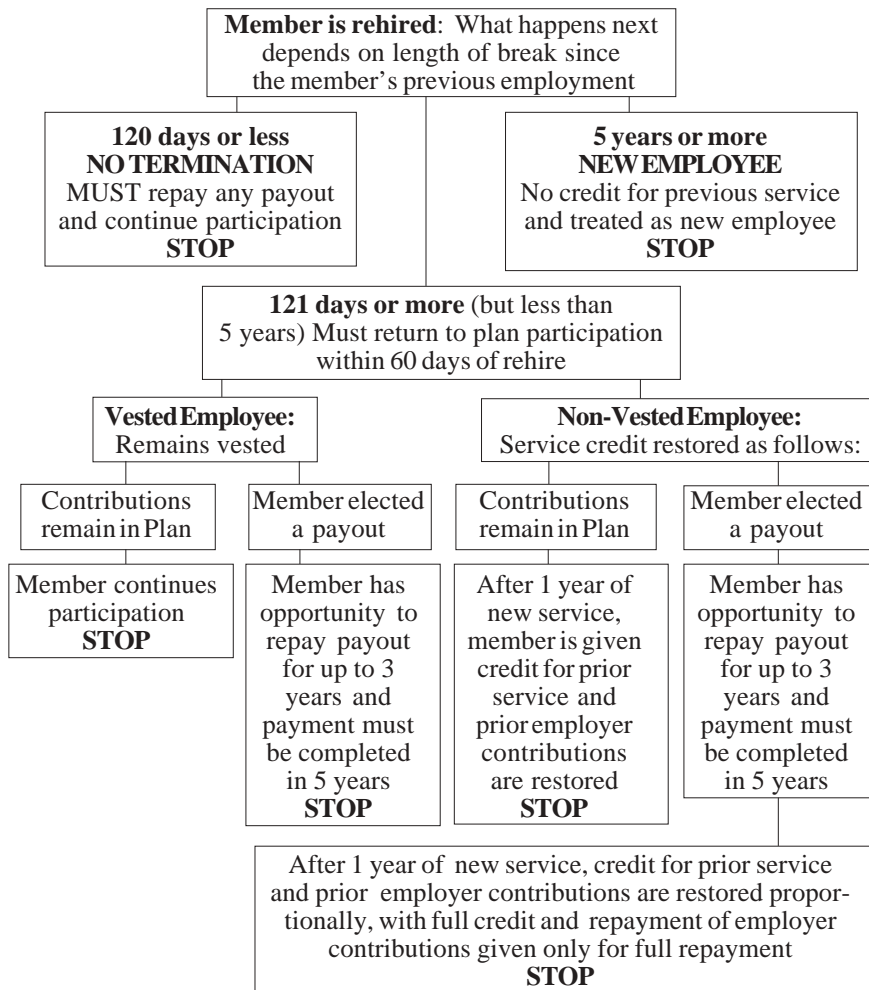
This is **NOT** a long-term disability insurance plan. If you receive disability insurance benefits in addition to your retirement benefits, the insurance company will most likely reduce their payment to you by the amount you receive from the State Plan.

**IMPORTANT:** Qualifying for disability retirement benefits through NPERS will also qualify you for continuation of your health insurance coverage through the state. (Please check with State Personnel or your personnel officer regarding premium rates, etc.)



## REEMPLOYMENT

The following is a diagram showing the reemployment and plan participation rules for a returning State Plan member under age 55:



**NOTE:** If you retire from the state (at least age 55), and you later return to employment with an agency under the State Plan, you will return as a "new" employee. There will be no recognition of prior state service toward eligibility or vesting credit. As a new employee, if and when you meet eligibility requirements and are enrolled in the Plan, your participation will be in the Cash Balance benefit. If you have a Defined Contribution account from previous Plan participation, that account will be converted to a Cash Balance account.

## TAXATION

Since 1986, your contributions to the Plan are not taxed when deducted from your salary. This means your taxable income, as reported on your Wage and Earning Statement (IRS Form W-2), is reduced by the amount you contribute to your retirement account. Once your contributions and earnings are returned to you, either as an annuity or another form of distribution, the funds are taxed as ordinary income in the year in which you receive them. Payments are subject to both federal and state income tax. State income tax will be based on your state of residence when you receive payments.

Once you receive payments from your retirement account, the income will be reported to you on an IRS Form 1099-R each year in January for the payments received the prior year. A copy of that form will also be provided to the IRS.

### Taxation of Withdrawals

Any amounts from your account that are rolled into an Individual Retirement Account (IRA) or another qualified retirement plan are not subject to taxation at the time of the rollover. Those amounts will be subject to taxation when you take a distribution from the rollover accounts.

NPERS is required by law to withhold **20%** for federal income taxes for all withdrawals paid directly to you that are eligible to be rolled over.

If you cease work **prior to age 55** and take a withdrawal **PRIOR** to age 59½, the taxable portion of your withdrawal(s) may be subject to an **IRS 10% tax penalty** for premature distributions. You may be able to avoid the 10% tax penalty if one of the following applies:

- ◆ The taxable portion of your refund is "rolled over" into an IRA or another qualified plan within 60 days of the payment date.
- ◆ Payment is made to an alternate payee under a qualified domestic relations order (QDRO).
- ◆ Your payment is used for large medical expenses.

**In the event of death or disability, the 10% tax penalty will not apply, regardless of your age.**

Distributions are required to begin the year you reach age 70½ unless you have not separated from service. Payments may be delayed until April 1 following the year that you reach 70½, or the year you terminate employment.

### **Taxation of Annuities**

If you purchase an annuity, federal taxes will be withheld from each monthly check based on your withholding election. An IRS Form W-4P withholding election should be submitted with your Request for Distribution Form. If a W-4P form is not submitted, withholding will be made at the rate of “married taxpayer with three exemptions.” Your withholding can be changed at any time by submitting a new W-4P.

If you made contributions prior to 1985, your annuity payments will be taxed based on the “Safe Harbor” method, as required by the Internal Revenue Service (IRS). NPERS calculates the “tax-free” portion of your monthly payment by dividing total pre-’85 after-tax contributions by the fixed number of payments assigned to your age group by the IRS. For example: 310 payments are used for anyone between the ages of 55 and 60. The remaining portion of the monthly benefit is “taxable.” After you have received the fixed number of payments, your monthly payment will become 100% taxable.

If you are a resident of the State of Nebraska, you may also *elect* to have state taxes withheld from your annuity payments by completing a Nebraska State Income Tax Withholding form.

**IMPORTANT:** Since the tax laws frequently change, NPERS provides detailed information on a separate handout. For more information, contact NPERS, the Internal Revenue Service or a tax consultant.

## **RETIREMENT PLANNING PROGRAM**

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The one-day seminars are an excellent way to begin planning for an important time in your life. Information is provided on your retirement plan, payment options, financial planning, social security benefits, Medicare and health insurance, healthy lifestyles, social and psychological adjustments to retirement and estate planning.

For information on seminars scheduled in your area, visit the website at

[www.npers.ne.gov](http://www.npers.ne.gov) or contact NPERS. Each fall NPERS mails registration information to all eligible members.

### **Preretirement Program**

Since January 1987, NPERS has conducted statewide Preretirement Planning seminars for Plan members, age 50 and over, and their spouses.

Each eligible member is entitled to receive **leave with pay** to attend **up to two** retirement planning programs. According to state law, “...*leave with pay shall mean a day off paid by the employer and shall not mean vacation, sick, personal, or compensatory time.*” You may choose to attend a seminar more than twice, but such leave will be at your expense and will be at the discretion of the employer. The law limiting attendance to twice is not retroactive and therefore will not include attendances prior to September 9, 1995.

### **Personal Planning Program**

In September 1991, state law authorized NPERS to conduct planning seminars for State Plan members under age 50 and their spouses. Each eligible member will receive leave with pay to attend a personal planning seminar twice prior to age 50. Leave will be granted as stated above.

The seminars are held every fall in various locations throughout the state. You may not, according to law, attend more than one seminar per fiscal year (July 1 - June 30).

## **APPEALS PROCESS**

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As a member of the State Plan, you have the right of review if you disagree with a decision reached by NPER’s director or the Public Employee’s Retirement Board (PERB). You must file your appeal form within 30 days after you receive notice of the Director’s or the PERB’s decision.

A hearing officer appointed by the PERB will schedule a formal hearing and send written notice to all parties concerned. If you wish to further appeal a decision, you are entitled to judicial review under the Administrative Procedures Act.

The time limits prescribed may be extended at the discretion of the PERB.

## ADMINISTRATION OF THE RETIREMENT PLAN

The **Public Employees Retirement Board (PERB)** consists of seven members appointed by the Governor for five-year terms. Three members are participants in the retirement systems administered by the PERB. One is a retired participant. Three are at-large members and are not employees of the State of Nebraska or any of its political subdivisions. The State Investment Officer is also a member of the PERB in a non-voting, ex-officio capacity.

The PERB is responsible for the administration of the Judges', State Patrol, School Employees', State Employees' and County Employees' Retirement Systems and the Deferred Compensation Plan. PERB meetings are normally scheduled on the third Monday of each month.

The **Nebraska Public Employees Retirement Systems (NPERS)** is the agency responsible for the administration of the State Plan.

A **Director** is hired by the PERB and directs NPERS in its administration the various systems. The Director is subject to the approval of the Governor and a majority vote of the Legislature.

The **State Treasurer** is the custodian of the funds and securities of the retirement systems.

The **Nebraska Investment Council** is responsible for the investment and management of the system's assets. The Council contracts with outside managers to invest the various funds.

The **Recordkeeper** is a company under contract with the PERB to maintain individual member accounts, provide quarterly statements and allow for changes in investment allocations where applicable.

## RELEASE OF INFORMATION

Member account information including name, address, account balances, beneficiaries, or payment options, will only be released to you under the following conditions:

- ◆ Personal visit to NPERS
- ◆ Adequate proof of identity provided over the phone
- ◆ Written requests
- ◆ Written release signed and dated by member (must be less than six months old)
- ◆ Court ordered release
- ◆ Request from guardian or conservator with proper certified authorization (must be less than three months old)
- ◆ Request from individual holding power of attorney with authorization to receive confidential information

Account information may be released to your employer for verification of necessary information. The Internal Revenue Service may receive account information to comply with federal tax laws. Account information may be released as necessary under a qualified domestic relations order.

### **Fax Policy**

The following will be honored via facsimile (fax) if signed by the member:

- ◆ Requests for account information
- ◆ Requests for beneficiary listings
- ◆ Requests for annuity estimates
- ◆ Changes in tax withholding

Original NPERS forms are required to process annuities or payments or to change beneficiaries or change of address for payment requests. However, faxed applications for a retirement annuity or a refund will be accepted to determine effective date of processing of payment **if the original form is received within five working days**. Faxed Beneficiary Designation forms shall also be accepted with timely receipt of the original form.

### **E-mail Policy**

General questions about the State Plan and requests for forms may be communicated through e-mail.

At the present time, NPERS does not answer individual account questions by e-mail; such questions must be submitted as a signed, written request.